UBAM - GLOBAL EQUITY

Quarterly Comment

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws.
The classification of the fund(s) as per the Sustainable Finance Disclosure Regulation (SFDR) is available on ubp.com or in the latest prospectus.

Market Comment

- After two consecutive months of relief rallies, global equity markets gave back some gains and ended December in the red. The last quarter of the year was nevertheless positive for major equity markets. The MSCI AC World ended Q4 up +9.8%, with +9.7% gains for Emerging Market equities, +9.6% for European Equities, +7.6% performance for US equities, +4.3% for Swiss equities and +3.3% for Japanese equities. This brought the full yearly loss for global equities down to -18.4%, the biggest annual loss since 2008.
- US inflation moderated again in November with +0.1% m/m increase versus +0.3% expected and +0.4% increase in the prior month. The yearly headline trend also declined from +7.7% y/y to +7.1%, while core inflation eased more moderately from +6.3% to +6.0%. The Fed remained attentive to inflationary risks and raised rates by 50bps in December. Business confidence declined in December with the US ISM Manufacturing coming in below 50 at 48.4. US GDP figures were nevertheless revised up for Q3 from +2.9% q/q SAAR to +3.2%, supported by firmer private and public consumption. Eurozone Q3 GDP figure also came in better than expected at +2.3% q/q, reflecting resilient post-pandemic household consumption and tourism. The ECB increased key rates by 50bps in December, with a hawkish tone on inflation trends. The SNB also increased its key rates by 50bps, citing inflationary pressures from abroad and price increases spreading across various categories of goods and services that continued to put upward pressure on inflation.
- Global equities traded near the long-term average forward PE ratio at 15.0 at the end of December, with 2022 earnings growth expectations steady at +10.1%, up from +7% at the start of the year, while 2023 expectations were further reduced to +2.8%, down from +9% at the start of the year. In fact, significant margin pressure is expected for companies which do not have enough pricing power to offset the likely weakening consumer demand in 2023.
- All sectors of the MSCI AC World ended Q4 in positive territory except for Consumer Discretionary. Industrials and Energy were the best performers while Financials and Healthcare contributed the most to the index performance, owing to their more important weight. Top contributing names over the period were Exxon Mobil, JP Morgan and Chevron Corp, while bottom contributing names were Tesla, Amazon and Apple. Value was among the best performing investment styles QTD and YTD, while Growth and Quality underperformed the broader MSCI AC World index over both periods, driven by higher interest rates' impact on long duration stocks. The 2023 earnings expectation for Growth stocks

stood nevertheless at +11% vs only +2% for Value stocks at the end of December 2022.

Performance Review

- UBAM – Global Equity delivered +13.1% in gross performance over the fourth quarter of the year vs +9.8% for the MSCI AC World. Both stock selection and sector allocation had positive effects on the quarterly performance of the portfolio (+1.7% and +1.5% respectively).
- The main contributors to performance in Q4 were the absence of exposure to Tesla, the underweight in Amazon, as well as the overweight in Exxon Mobil (+86bps; +69bps; and +63bps respectively). Tesla dropped -53.6% over the period pressured by rising interest rates' impact on growth stocks, worries of slowing demand, and concerns around Elon Musk's distraction following his Twitter acquisition. Amazon lost close to -26% in Q4 after posting weaker than expected Q3 revenues, with lower guidance for Q4 confronting slowing sales growth but still expanding Capex. The company nevertheless announced large cost-cutting layoffs that started in November. Exxon Mobil was up +27% following strong Q3 results on high energy prices, beating expectations. The company announced raising its quarterly dividends, along with inflation compensation to its employees and an expansion of its share repurchase program up to USD 50bn into 2024.
- The main performance detractors over Q4 were the position in Sunrun, as well as the overweights in Alphabet and Plug Power (-39bps, -27bps and -24bps respectively). Sunrun was down -12.9%, along with other solar providers after California cut the incentives for rooftop panels. The company nevertheless reported strong Q3 results for sales and profits. Alphabet lost -7.7% over Q4 leading the Big Tech sell-off. The company's search and related business, which is more insulated from economic swings, has started to show signs of weakness with revenues rising less than expectation on the back of slowing growth in digital advertising. The company also announced it would slow hiring and increase its grip on expenses ahead of tougher economic conditions. These measures are expected to take some time to materialize in the face of still high printing inflation and slowing consumer demand. Plug Power dropped -41.1% after a revenue warning for 2022 that could come 5 to 10% below guidance on the back of some project delays into 2023, as supply chain issues offset resilient demand.

Portfolio Activity and ESG

- Over the fourth quarter of the year, the team initiated a position in Haleon, the recently spun-off consumer health business from GSK. The company shows attractive CFROI® (Cash Flow Return on Investment. Source: Credit Suisse Holt) levels and margins. LVMH was also introduced to the portfolio over the period, given its ongoing operational strength, high and stable CFROI® and attractive earnings outlook for 2023. The company is expected to deliver defensive earnings growth given the higher resilience of its client base. Finally, Carlsberg was added to the portfolio taking advantage of an attractive entry point post weak results from the smaller brewer Unibrew. Carlsberg should be more resilient to cost/price pressures given its scale and optimization programs in place.
- On the other hand, the team sold Palfinger given the rising risks to earnings due to lower demand visibility and significant European PPI cost pressures. Meta (formerly Facebook) was also sold on likely headwinds to adverstising spending, slow transition to Reels, continued spend with limited revenue evidence and

reportedly better performing competitors. Amazon was sold in Q4 as the team forecasts its CFROI® level to collapse in 2022 as a result of both slowing online consumer demand and an increased capex intensity to support Prime's 1-day delivery and its datacenters (AWS) expansion. Nvidia was exited on EPS downgrades for 2022 and 2023, inventory writedowns and increasing headwinds to the company's valuation with rising interest rates. The team also sold Ceres Power as further delays of the planned joint venture with Chinese partner and shareholder Weichai Power pushes order intake and breakeven further into the future. Finally, the position in Sunny Optical was exited after a strong rebound of the stock's price in November and ongoing EPS downgrades linked to concerns around the company's mobile phone business.

- ESG considerations are fully integrated in each step of the fundamental investment process with a focus on a lower carbon footprint objective. At the end of December 2022, the portfolio had a AAA ESG rating with an ESG quality score of 9.3, versus a AA rating and 8.1 score for the MSCI AC World (ratings based on MSCI ESG Research). The portfolio also had a lower carbon weighted average intensity than its benchmark with 36.5 T CO2/$ mn sales vs 161.0 for the MSCI AC World index.

Outlook

- After turbulent markets in 2022 driven by inflation pressures and valuation compression, 2023's expectations are starting to reflect downward earnings revisions that could lead to an extended period of volatility into the new year. An active investment approach should protect investors from the lower quality part of the market with more downside risk for earnings and where performance is more dependent on macro-economic tailwinds, such as rising oil prices and interest rates which are expected to rise less in 2023. The defensive positioning of the Global Equity strategy has been reinforced over Q4, favoring companies with stable and less cyclical CFROI® profiles, while remaining exposed to structural growth trends.

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